



OFFICE OF THE CITY MANAGER

November 27, 2002

Ms. Irene Stillings
Executive Director
San Diego Regional Energy Office
8520 Tech Way - Suite 110
San Diego, CA 92123

Re: Regional Energy Infrastructure Study Comments

Dear Ms. Stillings:

The City of Chula Vista appreciates the opportunity to provide comments regarding the findings and recommendations of the Regional Energy Infrastructure Study ("Study") commissioned by Regional Energy Policy Advisory Council (REPAC) voting agencies.

As you may be aware, our City Council commissioned an energy-consulting firm to assist the city develop an Energy Plan ("Plan") in 2001. The goal of the Plan is to secure reasonably priced and a reliable supply of energy for the City, our residents and businesses (see attached summary). Initial phases of this Plan are already being implemented based on risk exposure and payoff potential – a prioritization method the City suggests REPAC use to develop a Regional Energy Strategy. The City's hope is that our Plan and the Study's recommendations can complement one another to maximize the potential benefits for both the City and the San Diego region.

Chula Vista's comments address two areas; general comments regarding the Study's findings followed by clarifying questions that I hope will help us understand the potential objectives and governance of the proposed regional body or Joint Powers Authority (JPA).

General Comments

The City agrees with some aspects of the report, including the assessment that the region currently lacks the required energy infrastructure to meet future energy needs. The report recommends system improvements, the pursuit of renewable energy sources, and the maximization of conservation efforts. The City also concurs with the report's recommendation that there is a need to diversify ownership of the region's energy assets (generation, transmission and distribution). Ratepayers in this region currently pay some of the highest commodity, distribution and transmission rates in the state and country. In addition, existing electricity generation capacity within the region is not obligated to meet the region's needs. Power generated within the region can be, and often is, dispatched to other areas of the country bypassing the region's immediate requirements. The study also recommends formation of a JPA that would procure energy for the region, and/or develop

discussed; nor is active JPA involvement in the ownership/operation of transmission and distribution facilities. Before joining any JPA the city would need to be comfortable that both the governance structure and the proposed allocation of benefits and risks was fair and proportionate. The City would also want to be able to continue to pursue City-based solutions to meet the City's own energy needs. The location of the publicly owned South Bay plant in our jurisdiction and soon to expire gas and electric franchise, we believe, give us unique opportunities outside the JPA structure. Nonetheless, the City will continue to monitor the JPA proposal to determine if Chula Vista's energy needs could be served by this approach or by other regional alternatives.

Although an effort that has been explored by the County and is currently being explored various cities in the County, the Study does not address municipalization or development of municipal energy utilities as a means of providing ratepayers with reliable, affordable electricity. However, as an integral part of the Chula Vista's Plan, a request for proposal will be released which will lead to an analysis of whether or not it would be feasible for the City to become an aggregator or a Municipal Energy Utility. Once the analysis is completed, a copy (along a recommendation to our City Council) will be provided to REPAC for review and input.

The City does not agree with all of the recommendations contained in the Study. Of particular concern is the construction of additional transmission lines, and large power plants in the region by 2030. There is no assurance that this power would stay in the region, nor has it been proven that the needs of the region cannot be met just as effectively with conservation and smaller, "distributed generation" facilities scattered around the county. Conservation reduces the need for excess generation capacity and distributed generation opens the door for effectively priced alternative energy. SDG&E has indicated that the cost of new transmission lines would be passed on to ratepayers; this adds to the comparatively high prices already being paid by consumers in the San Diego area.

Issues to Consider Regarding Formation of a Joint Powers Authority

As stated above, the City supports diversification of energy assets in the region. The City is however apprehensive about the proposal to form a JPA to direct diversification of these assets. Of particular concern to the City are the objectives and governance of the JPA. For a JPA to function effectively and represent the region's needs, the JPA must provide each member agency with proportionate voting rights and the JPA should not impede an individual jurisdiction's efforts to secure affordable and more reliable sources of energy. The City would like REPAC to address the questions below before developing a firm proposal to recommend formation of a JPA.

1. What is the business model you are trying to achieve?
 - a. What are the overall mission and goals?
 - b. Identification of specific objectives – What are we attempting to address/resolve?
 - c. What is the proposed time line?
 - d. What is our market?

2. What will the structure of JPA be?
 - a. What agency will take lead?
3. How is the JPA different from the power pool that SANDAG previously ran?
 - a. What have we learned from this previous energy action: success/failure.
4. What happens if the JPA including Port, rebuilt/re-powered South Bay Power Plant and distributed energy through a MUD.
5. What is SDG&E's position on the JPA? How can they assist/benefit the process?
6. What impact, if any, does/could the proposed SDG&E Valley Rainbow Transmission Line have on the creation of a JPA?
7. What are the implications of joining SCAPPA?
8. What are the current portfolio requirements of the participating agencies?
 - a. Is participation of all agencies mandatory?
 - b. Which agencies, if any, are not mandatory participants?
 - c. How can the existing energy requirements/portfolio be protected from extraordinary increases in market conditions/prices?
 - d. What actions are required to encourage participation?
9. What is cost/benefit-impact of state contracts and required exit fees?
10. What agreements can be gotten from SEMPRA regarding reliability, price and delivery?
11. What is the impact of SDG&E getting back into generation business currently being considered by PUC?
12. What are the implications of expanding the authority of the County Water Authority to include the purchase and distribution of energy? How does this impact the current role of the SDREO?
13. What are implications of:
 - a. The proposed Cal-Pine project?
 - b. The re-powering of the South Bay Power Plant?
 - c. Existing co-generation facilities?
 - d. The Port of San Diego's ownership of the South Bay Power Plant?
 - e. The existence of two Municipal Utilities in San Diego County: Chula Vista and San Marcos?
14. What is the impact/opportunity of the Mexican power market?

I hope the City's comments about the Study, and concerns/question raised about the proposed JPA will help REPAC and the SDREO finalize the Study and lead to an Energy Strategy that is beneficial to the region.

If you have any questions regarding the City's comments please feel free to call Michael Meacham at (619) 409-5870, Willie Gaters at (619) 409-5918 or myself at (619) 691-5031.

Sincerely,

A handwritten signature in black ink that reads "Sid Morris". The signature is fluid and cursive, with a large, sweeping "S" and "M".

Sid Morris,
Assistant City Manager

cc: The Honorable Mayor and City Council
John Moot, REPAC Chair
Bill Hall, San Diego Port Commissioner

City of Chula Vista Energy Strategy Action Plan

HIGHLY RECOMMENDED [Options with Low or Manageable Risk and Potential for Short-Term Payoff]:

- Continue/expand energy conservation projects in existing and future City facilities.
- Promote energy efficient programs for businesses and residents and promote community education.
- Monitor the market and legal restrictions and be prepared to enter into a contract with an Energy Service Provider (as permitted by law)*
- Develop and implement a legislative strategy that facilitates City's overall energy plan.

PROMISING [Options that Offer Significant Benefits but with Increased Risk and/or Medium Term Payoff]:

- Install distributed generation to serve a portion of the City's load.
- Monitor the market and legal restrictions and be prepared to enter into a bilateral agreement with a power generator.
- Partner with a third party to build and operate power generation facilities.
- Explore expansion of existing City programs and policies to facilitate additional private investment in energy efficiency and renewal energy.
- Develop an emissions offsets program based on mobile sources (as permitted by law).

HIGHER RISK: [Options that Require Large Capital Outlays and/or Carry Significant Business Risks and have a Longer-Term Payoff]

- Finance, own, and operate large-scale power plant to meet a portion of the City's demand for electricity.
- Form a municipal utility to own and operate all or some portion of the local distribution system.
- Become a municipal "aggregator" and acquire electricity at negotiated rates for the City, and included residents and businesses (as permitted by law).